1 General information

Hainan Meilan International Airport Company Limited (the "Company") was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 28 December 2000. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 18 November 2002. The Company and its subsidiaries (collectively the "Group") are mainly engaged in the operation of the Meilan Airport in Hainan, the PRC (the "Meilan Airport") and certain ancillary commercial businesses.

The consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 10 April 2007.

In the opinion of the Directors, the ultimate holding company is Haikou Meilan International Airport Company Limited, a company established in the PRC with limited liability.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain property, plant and equipment.

(i) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment – New Investment in a Foreign Operation;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment – The Fair Value Option;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- IFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC-Int 4, Determining whether an Arrangement contains a Lease;
- IFRIC-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Standard, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standard, amendment and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 November 2006 or later periods that the Group has not early adopted:

- IFRS 7, Financial instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosure (effective for annual periods beginning on or after 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analyses to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analyses to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007;

- IFRIC-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

(iii) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- IFRIC-Int 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC-Int 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, IFRIC-Int 7 is not relevant to the Group's operations; and

- IFRIC-Int 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. As the Group has no transactions involving the issuance of equity instruments, IFRIC-Int 8 is not relevant to the Group's operations; and

- IFRIC-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, IFRIC-Int 9 is not relevant to the Group's operations.

2 Summary of significant accounting policies (continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2(f)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment in value (see Note 2(g)). The results of the subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

2 Summary of significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at original cost or revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the Directors, less accumulated depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus reserve; all other decreases are charged to the income statement.

Depreciation is calculated on the straight-line method to allocate their cost or revalued amount to their residual values over their estimated useful life as follows:

Buildings and improvements	15-40 years
Machinery and equipment	10-15 years
Motor vehicles	10 years
Furniture, fixtures and other equipment	6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains – net, in the income statements. When revalued assets are sold, the amounts included in revaluation surplus reserve are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related assets.

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost of borrowings (including interest charges and exchange differences arising from foreign currency borrowings to the extent these exchange differences are regarded as an adjustment to interest costs) used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

2 Summary of significant accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is at least tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (see Note 2(g)). The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Loans and receivables

Financial assets represent loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (see Note 2(k)). Loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(k).

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Company is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Company is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2 Summary of significant accounting policies (continued)

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing cost incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the assets to intended use.

Other borrowing cost are recognised as an expense in the period in which they are incurred.

2 Summary of significant accounting policies (continued)

(p) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Deferred income

Incentives related to purchase of equipment are included in non-current liabilities as deferred income and then recognised in the consolidated income statement over the period necessary to match them with the costs, such as depreciation charges, that they are intended to compensate on a systematic basis.

(r) Employee benefits

(i) Pension obligations

The Group participates in defined contribution plans. The defined contribution plans are employee retirement plans regarding pension benefits required under existing PRC legislation. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees. The regular contributions, which are charged to the income statement on an accrual basis, constitute net periodic costs for the year in which they are due and as such are included in staff benefits expenses. The Group has no legal or constructive obligations to pay further contributions.

(ii) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in payroll and welfare payable when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or

- past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

2 Summary of significant accounting policies (continued)

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain that reimbursement will be received if the Group settles the obligation.

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues are recognised as follows:

(i) Airport fee is recognised upon outbound passengers departing from the airport.

(ii) Aeronautical revenues other than airport fee are recognised when the related airport services are rendered.

(iii) Revenues from duty free shops and other shops, air catering, restaurants and lounges are recognised upon delivery of goods and/or when title is passed to customers, or upon rendering of services.

(iv) Rental income is recognised on the straight-line basis over the lease periods.

(v) Advertising income is recognised on the straight-line basis over the period of display of the advertisements.

(vi) Car parking fees are recognised when the parking services are rendered.

(vii) Franchise fee is recognised on the straight-line basis during the period of granting the right of operations.

(viii) Tourism income is recognised when the services are rendered.

(ix) Interest income is recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

(a) Financial risk factors

The Group and the Company conduct their operations in the PRC and accordingly are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that purchases of certain equipment and payment of consulting fee are in US dollars. Dividends to equity holders holding H Shares are declared in RMB and paid in Hong Kong dollars. As at 31 December 2006, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB753,000 (2005: RMB960,000) were denominated in Hong Kong dollar and US dollar. Fluctuation of the exchange rates of RMB against foreign currencies has a limited impact on the Group's results of operations.

(ii) Interest rate risk

As the Group has no significant interest-bearing assets, other than cash and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The interest rates and terms of repayment of the long-term borrowings of the Group and the Company are disclosed in Note 13.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The carrying values less a reasonable impairment provision for financial assets and liabilities with a maturity of less than one year are approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is made based on management's experience in operating airport and the conditions of the property, plant and equipment. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade receivables

Whenever events or changes in circumstances indicate that the carrying amounts of trade receivables may not be recoverable, the Group will test whether trade receivables have suffered any impairment in accordance with the accounting policies stated in Note 2(h). In making its judgment, the Group considers information from a variety of sources including:

i) Recent prices of similar receivables in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

ii) Discounted cash flow projections based on reliable estimates of future cash flows and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on recent prices of receivables is not available, the fair value of receivable is determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

5 Revenue and segment information

The Group conducts its business within one business segment – the business of operating an airport and provision of related services in the PRC. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group for the year ended 31 December 2006. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

	Year ended 31 December	
	2006	2005
Analysis of revenue by category	***RMB'000***	*RMB'000*
Aeronautical:		
Passenger charges	**89,005**	95,366
Aircraft movement fees and related charges	**41,044**	42,262
Airport fee	**80,564**	85,327
Ground handling services income	**20,143**	25,409
	230,756	248,364
Non-aeronautical:		
Retailing	**9,509**	10,160
Franchise fee	**27,769**	15,980
Rental	**17,942**	16,469
Tourism	**20,485**	19,457
Advertising	**12,008**	9,157
Car parking	**5,101**	5,327
Others	**10,805**	9,930
	103,619	86,480
Total revenue	**334,375**	334,844

6 Land use rights

The interests of the Group and the Company in land use rights represent prepaid operating lease payments for land use rights. The movement of the land use rights is as follows:

	The Group and the Company
	RMB'000
Year ended 31 December 2005	
Opening net book amount	170,131
Amortisation	(3,310)
Closing net book amount	166,821
As at 31 December 2005	
Cost	179,499
Accumulated amortisation	(12,678)
Net book amount	166,821
Year ended 31 December 2006	
Opening net book amount	166,821
Amortisation	(3,111)
Closing net book amount	163,710
As at 31 December 2006	
Cost	179,499
Accumulated amortisation	(15,789)
Net book amount	163,710

As at 31 December 2006, certain land use rights amounting to RMB4,393,000 were in the process of application for official certificates.

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Outside Hong Kong, held on:		
Leases of over 50 years	**88,671**	90,065
Leases of between 10 to 50 years	**75,039**	76,756
	163,710	166,821

7 Property, plant and equipment

The Group:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2005						
Cost or valuation	636,160	79,230	44,081	20,220	157,028	936,719
Accumulated depreciation	(36,479)	(17,305)	(14,348)	(8,467)	–	(76,599)
Net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,733	11,753	157,028	860,120
Additions	2,464	123	211	2,421	180,366	185,585
Disposals *(Note 26)*	–	(3)	(18)	(46)	–	(67)
Depreciation *(Note 17)*	(16,365)	(7,096)	(5,156)	(2,742)	–	(31,359)
Closing net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
As at 31 December 2005						
Cost or valuation	638,624	79,347	44,162	22,459	337,394	1,121,986
Accumulated depreciation	(52,844)	(24,398)	(19,392)	(11,073)	–	(107,707)
Net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,770	11,386	337,394	1,014,279
Additions	276	391	3,889	849	113,321	118,726
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals *(Note 26)*	–	–	–	(16)	–	(16)
Depreciation *(Note 17)*	(22,959)	(10,773)	(5,323)	(4,102)	–	(43,157)
Closing net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832
As at 31 December 2006						
Cost or valuation	993,640	144,080	48,051	49,262	5,550	1,240,583
Accumulated depreciation	(75,803)	(35,171)	(24,715)	(15,062)	–	(150,751)
Net book amount	917,837	108,909	23,336	34,200	5,550	1,089,832

If the property, plant and equipment of the Group were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	**2006 Total RMB'000**	2005 Total RMB'000
Cost	1,032,615	164,755	59,607	53,493	5,550	**1,316,020**	1,197,424
Accumulated depreciation	(148,179)	(57,892)	(36,435)	(19,655)	–	**(262,161)**	(219,832)
	884,436	106,863	23,172	33,838	5,550	**1,053,859**	977,592

Depreciation expense of RMB42,600,000 (2005: RMB31,248,000) has been charged in cost of services and sales, RMB421,000 (2005: RMB45,000) in selling and distribution costs and RMB136,000 (2005: RMB66,000) in administrative expenses.

7 Property, plant and equipment (continued)

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
At cost	432,640	66,360	11,307	39,939	5,550	555,796
At valuation	561,000	77,720	36,744	9,323	–	684,787
	993,640	144,080	48,051	49,262	5,550	1,240,583

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings and improvements *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
At cost	77,624	1,627	7,418	13,136	337,394	437,199
At valuation	561,000	77,720	36,744	9,323	–	684,787
	638,624	79,347	44,162	22,459	337,394	1,121,986

7 Property, plant and equipment (continued)

The Company:

	Buildings and improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
As at 1 January 2005						
Cost or valuation	636,160	79,230	43,566	15,585	157,028	931,569
Accumulated depreciation	(36,479)	(17,305)	(14,020)	(5,444)	–	(73,248)
Net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Year ended 31 December 2005						
Opening net book amount	599,681	61,925	29,546	10,141	157,028	858,321
Additions	2,464	123	211	1,637	180,366	184,801
Disposals	–	(3)	(18)	(46)	–	(67)
Depreciation	(16,365)	(7,096)	(5,130)	(2,016)	–	(30,607)
Closing net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
As at 31 December 2005						
Cost or valuation	638,624	79,347	43,647	17,040	337,394	1,116,052
Accumulated depreciation	(52,844)	(24,398)	(19,038)	(7,324)	–	(103,604)
Net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Year ended 31 December 2006						
Opening net book amount	585,780	54,949	24,609	9,716	337,394	1,012,448
Additions	276	391	3,889	705	113,321	118,582
Transfer	354,740	64,342	–	26,083	(445,165)	–
Disposals	–	–	–	(16)	–	(16)
Depreciation	(22,959)	(10,773)	(5,302)	(3,646)	–	(42,680)
Closing net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334
As at 31 December 2006						
Cost or valuation	993,640	144,080	47,536	43,699	5,550	1,234,505
Accumulated depreciation	(75,803)	(35,171)	(24,340)	(10,857)	–	(146,171)
Net book amount	917,837	108,909	23,196	32,842	5,550	1,088,334

7 Property, plant and equipment (continued)

If the property, plant and equipment of the Company were stated on the historical cost basis, the amounts of each class would be as follows:

	Buildings and improvements	**Machinery and equipment**	**Motor vehicles**	**Furniture, fixtures and other equipment**	**Assets under construction**	**2006 Total**	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***	*RMB'000*
Cost	1,032,615	164,755	59,093	47,930	5,550	**1,309,943**	1,191,491
Accumulated depreciation	(148,179)	(57,892)	(36,061)	(15,449)	–	**(257,581)**	(215,730)
	884,436	106,863	23,032	32,481	5,550	**1,052,362**	975,761

Leased assets included in the above table, where the Group is a lessor, comprise buildings leased to third parties under operating leases:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Cost	**57,227**	30,473
Accumulated depreciation	**(4,751)**	(2,805)
Net book amount	**52,476**	27,668

An valuation of the property, plant and equipment of the Group was performed at 31 August 2002 by Vigers Hong Kong Limited, independent professionally qualified surveyors, for the purpose of the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited. Except for the valuation of property which was based on a combination of the open market value and depreciated replacement cost, the valuation of the remaining plant and equipment was based on the open market method. The depreciated replacement cost approach considers the costs to reproduce or replace in new condition the property appraised, in accordance with current construction costs for similar property in the locality, less depreciation whether arising from physical, functional or economic causes. The valuer assumed that the buildings and assets under construction will be used for the purposes for which they are presently used and did not consider alternative uses. A net valuation surplus, being the difference between the valuation surplus of approximately RMB41,449,000 resulted from the revaluation and the related deferred tax approximately RMB4,968,000, was recorded in Note 12.

Interest expenses capitalised to assets under construction for the year ended 31 December 2006 amounted to RMB1,576,000 (2005: RMB7,586,000) *(Note 19)*.

8 Investments in and amounts due from/to subsidiaries

(a) Investments in subsidiaries

	The Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**18,094**	18,094

As at 31 December 2006, the Company had equity interests in the following principal subsidiaries, all of which are unlisted limited liability company and operating in the PRC:

Name	Place of establishment and kind of legal entity	Principal activities and place of operation	Paid up capital	Interest held	
			RMB'000	**Directly**	**Indirectly**
Hainan Meilan International Airport Advertising Co., Ltd.	PRC, limited liability company	Provision of advertising services in the PRC	1,000	95	4.75
Hainan Meilan International Airport Traveling Co., Ltd.*	PRC, limited liability company	Provision of tourism services in the PRC	11,000	95	–
Hainan Meilan Duty Free Shop Limited	PRC, limited liability company	Retail sales in the PRC	1,000	95	–

* Hainan Meilan International Airport Traveling Co., Ltd. was granted a franchise by the Company to provide tourism and traveling services at Meilan Airport before 1 October 2006. Effective from 1 October 2006, such franchise was granted to Luckyway Traveling Co., Ltd. ("Luckyway Traveling"), a related company, to provide such services at Meilan Airport (Note 28(a)(v)).

(b) The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and payable on demand.

9 Trade receivables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from third parties *(Note (a))*	**28,229**	29,466	**27,441**	29,210
Less: provision for impairment of receivables	**(2,425)**	(2,248)	**(2,186)**	(2,186)
	25,804	27,218	**25,255**	27,024
Trade receivables from related parties *(Note (b) and 28(c))*	**87,445**	49,255	**86,664**	48,639
Airport fee receivable *(Note (c))*	**80,564**	113,201	**80,564**	113,201
	193,813	189,674	**192,483**	188,864

(a) As at 31 December 2006, the ageing analysis of the trade receivables from third parties was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**22,064**	20,469	**21,427**	20,267
91 – 180 days	**3,643**	3,377	**3,627**	3,363
181 – 365 days	**171**	2,530	**171**	2,530
Over 365 days	**2,351**	3,090	**2,216**	3,050
	28,229	29,466	**27,441**	29,210

The carrying amounts of trade receivables from third parties approximate their fair value.

The credit terms given to trade customers are determined on individual basis with the normal credit period from 1 to 3 months.

(b) As at 31 December 2006, the ageing analysis of the trade receivables from related parties was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 – 90 days	**46,176**	45,514	**45,436**	45,186
91 – 180 days	**17,972**	2,242	**17,972**	1,954
181 – 365 days	**12,993**	1,181	**12,959**	1,181
Over 365 days	**10,304**	318	**10,297**	318
	87,445	49,255	**86,664**	48,639

The carrying amounts of trade receivables from related parties approximate their fair value.

The credit terms given to related parties are determined on an individual basis with the normal credit period from 1 to 3 months.

9 Trade receivables (continued)

(c) As at 31 December 2006, the original amount, fair value and ageing analysis of the airport fee receivable were as follows:

	The Group and the Company			
	2006		2005	
	Original amount	**Fair value**	Original amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
0 – 90 days	**22,281**	**22,036**	22,124	21,899
91 – 180 days	**15,995**	**15,819**	18,914	18,721
181 – 365 days	**43,185**	**42,709**	44,289	43,838
Over 365 days	**–**	**–**	29,040	28,743
	81,461	**80,564**	114,367	113,201

The fair values are based on cash flows, discounted using an effective deposit interest rate of 2.25% per annum.

10 Time deposits and cash and cash equivalents

(a) Time deposits

As at 31 December 2006, the Group and the Company had two deposits (as at 31 December 2005: two deposits) placed with Xiamen International Bank amounting to RMB65,918,000 (2005: RMB64,468,000) and one deposit placed with China Merchants Bank amounting to RMB20,000,000 (as at 31 December 2005: RMB20,000,000). The deposits placed with Xiamen International Bank earn interest at 2.25% per annum and will be matured on 9 June 2007 and the deposit placed with China Merchants Bank earns interest at 2.25% per annum and will be matured on 15 June 2007.

(b) Cash and cash equivalents comprised:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**322,040**	21,408	**314,161**	10,036
Short-term bank deposit	**–**	224,000	**–**	224,000
	322,040	245,408	**314,161**	234,036

11 Share capital

	2006	2005
	RMB'000	*RMB'000*
At 1 January and 31 December		
Share capital registered, issued and fully paid		
246,300,000 Domestic shares of RMB 1 each	**246,300**	246,300
226,913,000 H shares of RMB 1 each	**226,913**	226,913
	473,213	473,213
Share premium on group reorganisation in 2000	**69,390**	69,390
Share premium on issue net of issuing expenses	**557,647**	557,647
	627,037	627,037
	1,100,250	1,100,250

12 Other reserves

		The Group	
	Revaluation surplus	**Statutory reserves**	**Total**
	(Note a)	*(Note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2005	36,481	78,464	114,945
Transfer from retained earnings	–	22,278	22,278
Balance at 31 December 2005	36,481	100,742	137,223
Balance at 1 January 2006	36,481	100,742	137,223
Transfer from retained earnings	–	12,305	12,305
Balance at 31 December 2006	36,481	113,047	149,528

		The Company	
	Revaluation surplus	**Statutory reserves**	**Total**
	(Note a)	*(Note b)*	
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2005	36,481	77,904	114,385
Transfer from retained earnings	–	22,243	22,243
Balance at 31 December 2005	36,481	100,147	136,628
Balance at 1 January 2006	36,481	100,147	136,628
Transfer from retained earnings	–	12,275	12,275
Balance at 31 December 2006	36,481	112,422	148,903

12 Other reserves (continued)

(a) Revaluation surplus

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Property, plant and equipment *(Note 7)*	**36,481**	36,481

(b) Statutory reserves

Until 31 December 2005, in accordance with the relevant laws and regulations of the PRC and the Articles of Association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its profit after taxation (based on the Company's local statutory financial statements) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividend. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Title to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

Pursuant to revised "Company Law of the People's Republic of China" effective from 1 January 2006 and a circular issued by Ministry of Finance ("MOF")(Cai Qi [2006]No.67), the Company shall cease to provide for the statutory public welfare fund out of appropriation of net profit. The balance of public welfare fund as at 31 December 2005 is converted into statutory reserve. The profit appropriation to statutory reserve fund remained unchanged.

13 Borrowings – Secured

As at 31 December 2006, the borrowings were borrowed from the bank to finance the construction of the airport terminal, the related premises and facilities and were secured by a floating charge over the Company's revenues.

As at 31 December 2006, loans of RMB53,000,000 (2005: RMB103,000,000) denominated in RMB bear interest at commercial rate of 6.39% per annum (2005: 6.12% per annum) with maturities through 2013(2005: through 2013).

As at 31 December 2006, the bank borrowings were repayable as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Within 1 year	**28,000**	50,000
Between 1 and 2 years	**9,000**	28,000
Between 3 and 5 years	**12,000**	17,000
Over 5 years	**4,000**	8,000
	53,000	103,000
Less: current portion of borrowings included in current liabilities	**(28,000)**	(50,000)
	25,000	53,000

The effective interest rate as at 31 December 2006 was 6.39% (2005: 6.12%).

13 Borrowings – Secured (continued)

The carrying value and fair value of the non-current borrowings are as follows:

	The Group and the Company			
	Carrying value		Fair value	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank borrowings				
– non-current	**25,000**	53,000	**25,108**	53,270

The fair value are based on cash flows discounted using a rate based on the borrowing rate of 6.39% (2005: 6.12%).

The carrying amounts of short-term borrowings are approximate their fair value.

There were no undrawn banking facilities as at 31 December 2006 (2005: nil).

14 Deferred income tax liabilities

The deferred income tax liabilities arising from the difference between the depreciation and amortisation for accounting purpose and the depreciation and amortisation for tax purpose of the following assets:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Land use rights	**6,373**	6,454
Property, plant and equipment	**4,648**	4,808
	11,021	11,262
Deferred income tax liabilities to be settled:		
– after more than 12 months	**10,780**	11,021
– within 12 months	**241**	241
	11,021	11,262

14 Deferred income tax liabilities (continued)

The movement on the deferred income tax account is as follows:

	The Group and the Company		
	Land use rights	Property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2005	6,535	4,968	11,503
Recognised in the income statement	(81)	(160)	(241)
As at 31 December 2005	6,454	4,808	11,262
Recognised in the income statement	(81)	(160)	(241)
As at 31 December 2006	6,373	4,648	11,021

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB501,000 (2005: RMB442,000) in respect of the tax losses of the Group's subsidiaries as at 31 December 2006 of approximately RMB3,454,000 (2005: RMB3,052,000). Tax losses amounting to RMB814,000, RMB727,000, RMB744,000, RMB767,000 and RMB402,000, will expire in 2007, 2008, 2009, 2010 and 2011 respectively.

Except for the tax losses carry forwards as referred to in the preceding paragraph, there are no other material deferred income tax assets not recognised.

15 Deferred income

	The Group and the Company
	2006
	RMB'000
Addition	**9,237**
Amortisation *(Note 17)*	**(778)**
At the end of year	**8,459**

Deferred income represents incentive received for the purchase of property, plant and equipment manufactured locally in the PRC. The amount is included in non-current liabilities and then recognised in the consolidated income statement over the period necessary to match with the depreciation charges of the relevant fixed assets on a systematic basis.

16 Trade and other payables

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**5,146**	2,621	**2,770**	1,715
Other payables	**108,544**	36,007	**105,116**	30,452
Deposits received	**1,391**	1,326	**1,391**	1,326
Due to related parties *(Note 28(c))*	**19,826**	19,952	**19,676**	15,776
	134,907	59,906	**128,953**	49,269

As at 31 December 2006, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
0 -90 days	**16,868**	17,054	**14,736**	16,428
91-180 days	**2,803**	859	**2,785**	752
181-365 days	**3,352**	484	**2,976**	311
Over 365 days	**1,243**	–	**1,243**	–
	24,266	18,397	**21,740**	17,491

17 Expenses by nature

Expenses included in cost of services and sale of goods, selling and distribution costs and administrative expenses are analysed as follows:

	2006	2005
	RMB'000	*RMB'000*
Cost of goods and services	**44,933**	41,977
Depreciation of property, plant and equipment *(Note 7)*	**43,157**	31,359
Amortisation of land use rights *(Note 6)*	**3,111**	3,310
Employee benefit expense *(Note 18)*	**35,761**	33,891
Impairment of goodwill	**–**	3,650
Other taxes	**5,975**	4,881
Auditors remuneration	**2,333**	2,384
Consulting fee	**9,030**	4,587
Operating lease rentals – building	**255**	509
Amortisation of deferred income *(Note 15)*	**(778)**	–
Loss on disposal of property, plant and equipment *(Note 26)*	**16**	67
Impairment charge of trade receivables	**177**	33
Utilities and power	**17,172**	11,204
Repair and maintenance	**5,347**	6,690

18 Employee benefit expense

	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	**25,537**	23,481
Pension costs – statutory pension *(Note 24)*	**4,003**	3,526
Staff welfare	**1,888**	2,172
Housing fund *(Note 25)*	**1,963**	1,841
Medical benefits	**1,063**	1,015
Other allowances and benefits	**1,307**	1,856
	35,761	33,891

As at 31 December 2006, the Group and the Company had 676 and 593 (2005: 691 and 600) employees respectively.

(a) Directors' and Supervisors' emoluments

The remuneration of every Director and Supervisor for the year ended 31 December 2006 is set out below:

	Fees	**Salaries and other benefits**	**Bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director					
Zhang Chong	65	61	56	14	196
Wang Zhen	70	73	64	15	222
Huang Qiu	28	47	17	7	99
Chen Wenli	5	–	–	–	5
Dong Guiguo	42	32	38	9	121
Zhang Han'an	50	–	–	–	50
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Fung Ching, Simon	80	–	–	–	80
Xie Zhuang	80	–	–	–	80
Gunnar Moller	70	123	106	–	299
Name of Supervisor					
Chen Kewen	19	–	–	–	19
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	20	37	26	15	98
Zhang Cong	1	–	–	–	1

18 Employee benefit expense (continued)

(a) Directors' and Supervisors' emoluments (continued)

The remuneration of every Director and Supervisor for the year ended 31 December 2005 is set out below:

	Fees	Salaries and other benefits	Bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of Director					
Wang Zhen	70	72	76	13	231
Huang Qiu	70	58	59	13	200
Kristian Bjorneboe	70	108	70	–	248
Chen Wenli	70	–	–	–	70
Zhang Han'an	50	–	–	–	50
Kjeld Binger	50	–	–	–	50
Xu Bailing	80	–	–	–	80
Fung Ching, Simon	80	–	–	–	80
Xie Zhuang	80	–	–	–	80
Gunnar Moller	–	–	–	–	–
Name of Supervisor					
Zhang Shusheng	20	–	–	–	20
Zeng Xuemei	20	34	31	12	97
Zhang Cong	20	–	–	– –	20

No Directors or Supervisors waived or agreed to waive any emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: two) individuals during the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**74**	123
Bonuses	**63**	134
Retirement scheme contributions	**15**	26
	152	283

During the year ended 31 December 2006, no emolument was paid to the Directors, supervisors and any of the five highest-paid employees as an inducement to join or upon joining the Company or as compensation for loss of office.

For the year ended 31 December 2006 and 2005, the emoluments paid to five highest-paid employees fell within the band from nil to RMB1 million.

19 Finance income-net

	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans	**(5,449)**	(7,586)
Less: interest capitalised *(Note 7)*	**1,576**	7,586
Finance cost	**(3,873)**	–
Finance income – bank interest	**4,111**	4,494
	238	4,494

20 Income tax expense

Hong Kong profits tax has not been provided for as the Group had no estimated assessable profits arising in Hong Kong during the year (2005: Nil). Taxation in the income statement represents provision for the PRC enterprise income tax.

	2006	2005
	RMB'000	*RMB'000*
Current income tax		
– outside Hong Kong	**10,339**	12,478
Deferred income tax *(Note 14)*	**(241)**	(241)
Income tax expense	**10,098**	12,237

The difference between the annual taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**133,076**	163,651
Tax calculated at a domestic rate applicable to profits in the Hainan Province	**19,961**	24,548
Effect of tax holidays	**(10,001)**	(13,397)
Tax loss not recognised	**57**	114
Expenses not deductible for tax purpose	**81**	972
Income tax expense	**10,098**	12,237

Under PRC income tax law, the entities within the Group are subject to enterprise income tax of 15% (2005: 15%) on the taxable income as reported in their statutory financial statements which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

Pursuant to the approval documents issued by Hainan Qiongshan State Tax Bureau, the Company has been granted full exemption from enterprise income tax from 2000 to 2004 and a 50% reduction from 2005 to 2009.

21 Profit attributable to equity holders of the Company

The profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of RMB123,382,000 (2005: RMB154,601,000).

22 Earnings per share

– Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company *(RMB'000)*	**122,976**	151,844
Weighted average number of ordinary shares in issue *(thousands)*	**473,213**	473,213
Basic earnings per share *(RMB per share)*	**26 cents**	32 cents

– Diluted

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary share outstanding during the years ended 31 December 2006 and 2005.

23 Dividends

	2006 ***RMB'000***	2005 *RMB'000*
No interim dividend in 2006 (2005: RMB8.4 cents per share)	**–**	39,750
No final dividend proposed in 2006 (2005: no final dividend proposed)	**–**	–
	–	39,750

At the Board of Director's meeting held on 10 April 2007, the Directors proposed no final dividend payout for the year ended 31 December 2006.

24 Pensions

All of the Group's full-time employees, who are permanent PRC citizens, are covered by a state-sponsored pension scheme and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the state-sponsored retirement plan at a rate of 20% of the employees' salaries in 2006 and 2005.

The Group provides no other retirement benefits than those described above.

25 Housing fund

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 15% (2005: 15%) of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2006, the Group's contribution to the housing fund was approximately RMB1,963,000 (2005: RMB1,841,000).

As at 31 December 2006 and 2005, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

26 Cash generated from operations

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Profit before income tax	**133,076**	163,651
Adjustments for:		
– Interest income	**(4,111)**	(4,494)
– Interest expense	**3,873**	–
– Depreciation and amortisation	**46,268**	34,669
– Impairment of goodwill	**–**	3,650
– Write-off of negative goodwill	**–**	(165)
– Loss on sale of property, plant and equipment	**16**	67
Change in working capital:		
– Receivables and prepayments	**5,231**	(18,790)
– Trade and other payables	**5,386**	(41,306)
– Inventories	**(966)**	1,124
Cash generated from operations	**188,773**	138,406

27 Commitments

(a) Capital commitments

Capital expenditure in respect of buildings and improvements at the balance sheet date but not yet incurred is as follows:

	The Group and the Company	
	2006	2005
	RMB'000	*RMB'000*
Contracted but not provided for	**21,708**	41,107
Authorised but not contracted for	**566**	76,770
	22,274	117,877

(b) Operating lease commitments – where the Group and the Company are the lessee

The Group leases offices under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**–**	1,949	**–**	509
Later than 1 year and not later than 5 years	**–**	–	**–**	–
	–	1,949	**–**	509

(c) Operating lease commitments – where the Group and the Company are the lessor

The future minimum lease payment receivables under non-cancellable operating leases for buildings are as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Not later than 1 year	**27,258**	19,262	**16,658**	13,766
Later than 1 year and not later than 5 years	**34,029**	16,387	**30,527**	15,568
Over 5 year	**1,452**	–	**1,452**	–
	62,739	35,649	**48,637**	29,334

28 Material related party transactions

The Company is controlled by Haikou Meilan International Airport Company Limited (the "Parent Company") established in the PRC and owns 50% of the Company's shares. Copenhagen Airports A/S ("CPHA") owns 20% of the Company's shares. Hainan Airlines Company Limited ("Hainan Airlines") and HNA Group Co., Ltd. ("HNA Group") owns 1.2% and 0.8% of the Company's shares respectively. The remaining 28% of the shares are widely held.

(a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the year:

Name of related party	Relationship with the Company	Nature of transactions	*Note*	The Group **2006** ***RMB'000***	2005 *RMB'000*
Revenues:					
Hainan Airlines	Shareholder	Income for the provision of customary airport ground services	*(i)*	**59,762**	73,355
		Rental income for the leasing of office and commercial space	*(ii)*	**8,137**	6,699
		Income from franchise fee for the operation of the cargo centre	*(iii)*	**6,000**	6,000
China Southern Airlines Co., Ltd. ("Southern Airlines ")	Promoter	Income for the provision of customary airport ground services	*(i)*	**36,895**	42,895
		Rental income for the leasing of office and commercial space	*(ii)*	**6,725**	5,946
Xiamen Airlines Company Limited ("Xiamen Airlines")	Subsidiary of the Promoter	Income for the provision of customary airport ground services	*(i)*	**2,264**	1,993
Hainan Airlines Food Company limited. ("Hainan Food")	Subsidiary of HNA Group	Franchise income from catering services	*(iv)*	**1,986**	1,856
Luckyway Travelling	Subsidiary of HNA Group	Franchise income from tourism and traveling services at Meilan Airport	*(v)*	**583**	–
HongKong Airlines Limited	Subsidiary of HNA Group	Income for the provision of customary airport ground services	*(i)*	**481**	–

28 Material related party transactions (continued)

(a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the year: (continued)

Name of related party	Relationship with the Company	Nature of transactions	*Note*	The Group 2006 **RMB'000**	2005 *RMB'000*
Expenses:					
Haikou Meilan International Airport Co., Ltd.	Parent company	Airport composite services charged by the Parent Company	*(vi)*	**15,227**	12,600
		Rental expense paid for the leasing of office and commercial space	*(vii)*	**255**	509
HNA Group	Shareholder	Logistic composite services charged by HNA Group	*(viii)*	**10,186**	10,741
Hainan Airlines Aviation Information System Co., Ltd. ("HNAAIS")	Subsidiary of Hainan Airlines	Information system maintenance service	*(ix)*	**1,993**	–
Copenhagen Airports International A/S ("CPHI")	Subsidiary of CPHA	Technical services fee expenses	*(x)*	**3,729**	3,587
Sharing of customary airport ground services income:					
Haikou Meilan International Airport Co., Ltd.	Parent Company	Sharing of customary airport ground services income by the Parent Company	*(xi)*	**44,312**	46,603

(i) The Company provided customary airport ground services including landing facilities, basic ground handling services, cargo storage and handling, passenger and baggage security check services and other related services to Hainan Airlines and other airlines at rates prescribed by the General Administration of Civil Aviation of China (the "CAAC").

(ii) The Company leased office, commercial areas, premises, airport counters and an aircraft hangar to Hainan Airlines and Southern Airlines. The rental charges were agreed between the Company and the airlines.

28 Material related party transactions (continued)

(a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the year: (continued)

(iii) In accordance with the agreement between the Company and Hainan Airlines dated 26 August 2005, Hainan Airlines would pay a monthly franchise fee of RMB500,000 to the Company for operating the cargo centre with retrospective effect on 1 January 2005.

The aforementioned agreement was approved by the Extraordinary General Meeting on 4 November 2005.

(iv) In accordance with an agreement between the Company and Hainan Food dated 5 January 2005, Hainan Food is granted a right to provide on-board catering services to airlines. The franchise fee is calculated on a fixed price with reference to the number of passengers retaining the relevant services.

(v) Pursuant to the franchise agreement with a term from 1 October 2006 to 31 December 2008 between the Company and Luckyway Traveling dated 22 September 2006, the Company granted Luckyway Traveling of a franchise to provide tourism and traveling services at Meilan Airport. The basic annual franchise fee is RMB3.5 million. Besides, 50% of the profits earned by Luckyway Traveling from its franchise operation at Meilan airport will be charged by the Company.

(vi) According to a revised airport composite services agreement with a term of three years approved by the Extraordinary General Meeting on 18 May 2005 with effect from 1 January 2005 retrospectively, the Parent Company has agreed to provide the following services to the Group:

(a) Provision of security guard service;

(b) Cleaning and landscaping;

(c) Sewage and refuse processing;

(d) Power and energy supply and equipment maintenance; and

(e) Passenger and luggage security inspection.

The charges relating to the services of item (a)-(d) are determined in accordance with the cost for the Parent Company in providing such services plus a 5% mark-up as management fee, except for item (d), the mark-up of which is 25% pursuant to the relevant pricing guideline set by CAAC. The charges relating to Item (e) is determined in accordance with the rate prescribed by CAAC.

(vii) The Company and the Parent Company entered into an office lease agreement dated 25 October 2002, the Company agreed to rent from the Parent Company office premises for a term of five years at an annual rental of RMB509,000 with effect from 1 January 2002.

28 Material related party transactions (continued)

(a) The following is a summary of material transactions carried out with related parties in the ordinary course of business during the year: (continued)

(viii) Pursuant to a logistic composite service agreement dated 26 August 2005, HNA Group has agreed to provide and procure its subsidiaries to provide to the Company logistic services including (a) staff training; (b) staff shuttle bus services; (c) staff cafeteria services; (d) vehicle maintenance; and (e) appliance procurement with effect from 1 January 2005.

The charges for these services are determined as follows: item (a), at the cost of providing such services shared among the HNA Group, the Company and other relevant companies on a pro rata basis by reference to employee headcount; items (b) and (c) at a fixed price with reference to the relevant cost per employee headcount; and items (d) and (e) at the cost of providing such services plus a 5% and a 1% mark-up as management fees, respectively.

(ix) In accordance with revised agreement with a term of three years between the Company and HNAAIS dated 17 May 2006, HNAAIS provide maintenance service for the information system of the Company with effect from 1 January 2006. The monthly service fee varies from month to month depending on the type of services rendered by HNAAIS.

(x) Pursuant to the technical service agreement dated 16 September 2002 and amended on 30 October 2002 between the Company and CPHI. CPHI has agreed to provide certain technical and consultancy services in respect of the long-term management and development of Meilan Airport.

The Company is required to pay fees to CPHI which consist of a fixed fee component and a performance-related component. The fixed fee component is calculated by reference to the number of consultant-days used in providing the technical and consultancy services. The performance-related component is calculated by reference to the Company's actual earnings before interest, tax, depreciation and amortisation.

(xi) As directed by the circular (Zong Ju Cai Han No. [2002] 77) issued by the CAAC on 27 June 2002, the Company entered into an agreement on 25 October 2002 with the Parent Company that both parties will share, on the ratio of 75% to the Company and 25% to the Parent Company, the aircraft movement fees for all airlines, passenger charges for domestic airlines and the basic ground handling fees for Hong Kong, Macau and foreign airlines in connection with the airport terminal services and runway services provided to the Group's customers by the Company and the Parent Company, respectively. The Company will collect such fees on behalf of the Parent Company and assumes no liabilities in respect of a default of payment by the airline customers. The Company has accounted for its share of 75% of the aeronautical fees in its consolidated income statement as revenue.

(b) Key management compensation

	2006	2005
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**770**	693
Bonuses	**451**	450
Retirement scheme contributions	**90**	76
	1,311	1,219

28 Material related party transactions (continued)

(c) As at 31 December 2006, balances with related parties comprised:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables from related parties:				
Hainan Airlines*	**62,723**	24,929	**62,048**	24,929
HNA Group	**–**	5,727	**–**	5,727
Southern Airlines	**15,799**	15,338	**15,765**	15,009
Hainan Food	**3,435**	1,724	**3,435**	1,724
Yangzijiang Air Express	**15**	–	**15**	–
SPIA	**–**	27	**–**	27
Xiamen Airlines	**1,293**	1,015	**1,293**	1,015
Others	**4,180**	495	**4,108**	208
	87,445	49,255	**86,664**	48,639
Other receivables from related parties:				
Hainan Da Lung Enterprise Co., Ltd.	**–**	1,162	**–**	1,162
SPIA	**56**	–	**56**	–
Others	**–**	113	**–**	113
	56	1,275	**56**	1,275
	87,501	50,530	**86,720**	49,914

28 Material related party transactions (continued)

(c) As at 31 December 2006, balances with related parties comprised: (continued)

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payable to related parties:				
Parent Company	**12,998**	16,508	**12,848**	12,337
CPHI	**6,345**	3,129	**6,345**	3,129
Others	**483**	315	**483**	310
	19,826	19,952	**19,676**	15,776

* An amount of RMB30,000,000 was settled in March 2007.

Trade receivables from related parties are unsecured, interest-free and with a credit period of 1 to 3 months. Other balances due from/to related parties are unsecured, interest-free and without fixed terms of repayment, unless otherwise stated in above notes.

29 Events after the balance sheet date

On March 16 2007, the corporate income tax law was passed at the Fifth Session of Tenth National People's Congress of PRC whereby all enterprises with operations in the PRC will be subject to the same statutory income tax rate effecting from 1 January 2008. As at the date that these financial statements are approved for issue, detail measures of the new law has yet to be issued, the Group will evaluate the impact of the new law on the operating results and the financial position of the future periods as more detail measures and other related regulations are announced.